

21-3010

**FINANCIAL STATEMENTS**

**VILLAGE OF GARDEN**

**For the year ended February 28, 2003**

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**VILLAGE OF GARDEN**

February 28, 2003

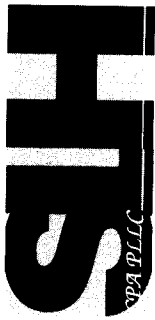
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*Schneider, Larche,  
Haapala & Co., PLLC*

**CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS**

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October 10, 2003

Village Council  
Village of Garden  
Delta County, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the combined financial statements of the Village of Garden, Michigan and the combining and individual fund financial statements of the Village as of and for the year ended February 28, 2003, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described more fully in Note 2, the combined financial statements referred to above do not include financial statements of the General Fixed Asset Account Group. In addition, as described more fully in Note 6, the Village has not capitalized and depreciated enterprise fund type property and equipment acquired prior to March 1, 1979; nor has the Village recorded contributions in aid of construction attributable to such acquisitions. The effect of these departures from the basis of accounting described in Note 1, while material, could not be determined.



In our opinion, except for the effect on the financial statements of the omission and the departure described in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Village of Garden, Michigan as of February 28, 2003, and the revenue collected and expenditures or expenses paid, and the cash flows of the proprietary fund types, during the year then ended on the basis of accounting described in Note 1. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of each of the individual funds of the Village of Garden, Michigan, as of February 28, 2003, and the revenue collected and expenditures paid of such funds during the year then ended on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2003, on our consideration of the Village of Garden's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole and on the combining and individual fund financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Garden, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the combined, combining and individual fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

*Schneider, Larsche, Haapala & Company, PLLC*

Certified Public Accountants

**COMBINED FINANCIAL STATEMENTS**

## VILLAGE OF GARDEN

**COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM  
CASH TRANSACTIONS - ALL FUND TYPES**

February 28, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>	<u>Long-term Debt Account Group</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprises</u>		
<b><u>ASSETS</u></b>					
Cash	\$ 14,575	\$ 28,586	\$ -	\$ -	\$ 43,161
Due from other funds	3,012	-	-	-	3,012
Restricted Assets:					
Cash	-	-	25,563	-	25,563
Land	-	-	7,955	-	7,955
Equipment	-	-	23,116	-	23,116
Water system	-	-	1,529,787	-	1,529,787
Accumulated depreciation	-	-	( 403,318)	-	( 403,318)
Amount to be provided for retirement of general long-term debt	-	-	-	36,510	36,510
<b>TOTAL ASSETS</b>	<b>\$ <u>17,587</u></b>	<b>\$ <u>28,586</u></b>	<b>\$ <u>1,183,103</u></b>	<b>\$ <u>36,510</u></b>	<b>\$ <u>1,265,786</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
Liabilities:					
Payroll taxes withheld	\$ 11,502	\$ -	\$ -	\$ -	\$ 11,502
Due to other funds	-	1,509	1,503	-	3,012
Notes payable	-	-	-	36,510	36,510
Revenue bonds payable	-	-	184,500	-	184,500
<b>TOTAL LIABILITIES</b>	<b>\$ <u>11,502</u></b>	<b>\$ <u>1,509</u></b>	<b>\$ <u>186,003</u></b>	<b>\$ <u>36,510</u></b>	<b>\$ <u>235,524</u></b>
Fund Equity:					
Contributed capital	\$ -	\$ -	\$ 1,364,664	\$ -	\$ 1,364,664
Retained earnings:					
Reserved for revenue bond debt service	-	-	25,563	-	25,563
Unreserved	-	-	( 393,127)	-	( 393,127)
Fund balance:					
Reserved for recreation	3,813	-	-	-	3,813
Unreserved, undesignated	<u>2,272</u>	<u>27,077</u>	<u>-</u>	<u>-</u>	<u>29,349</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>6,085</u></b>	<b>\$ <u>27,077</u></b>	<b>\$ <u>997,100</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>1,030,262</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>17,587</u></b>	<b>\$ <u>28,586</u></b>	<b>\$ <u>1,183,103</u></b>	<b>\$ <u>36,510</u></b>	<b>\$ <u>1,265,786</u></b>

See notes to financial statements.

**VILLAGE OF GARDEN**

**COMBINED STATEMENT OF REVENUES RECEIVED,**  
**EXPENDITURES PAID AND CHANGES IN FUND BALANCE -**  
**ALL GOVERNMENTAL FUND TYPES**

For the year ended February 28, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Revenues Received:			
Taxes	\$ 22,307	\$ -	\$ 22,307
State grants	24,913	5,729	30,642
Local grants	3,000		3,000
Charges for services	15,188	-	15,188
Other	<u>3,796</u>	<u>-</u>	<u>3,796</u>
	\$ <u>69,204</u>	\$ <u>5,729</u>	\$ <u>74,933</u>
Expenditures Paid:			
Legislative	\$ 3,388	\$ -	\$ 3,388
General government	58,615	-	58,615
Public works	2,820	24,445	27,265
Recreation and culture	4,880	-	4,880
Capital outlay	47,974	-	47,974
Debt service	<u>1,786</u>	<u>-</u>	<u>1,786</u>
	\$ <u>119,463</u>	\$ <u>24,445</u>	\$ <u>143,908</u>
Excess of Revenues Received Over (Under) Expenditures Paid	(\$ 50,259)	(\$ 18,716)	(\$ 68,975)
Other Financing Sources Received (Paid):			
Operating transfers in	10,000	5,923	15,923
Operating transfers out	-	( 5,923)	( 5,923)
Proceeds from notes payable	<u>37,923</u>	<u>-</u>	<u>37,923</u>
Excess of Revenues Received and Other Sources Received Over (Under) Expenditures Paid	(\$ 2,336)	(\$ 18,716)	(\$ 21,052)
Fund Balance, March 1	<u>8,421</u>	<u>45,793</u>	<u>54,214</u>
Fund Balance, February 28	\$ <u><u>6,085</u></u>	\$ <u><u>27,077</u></u>	\$ <u><u>33,162</u></u>

See notes to financial statements.



**EXHIBIT III**

**VILLAGE OF GARDEN**

**COMBINED STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES**

For the year ended February 28, 2003

	<u>General Fund</u>			<u>Special Revenue Funds</u>			<u>Totals</u> <u>(Memorandum Only)</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues Received:									
Taxes	\$ 23,000	\$ 22,307	(\$ 693)	\$ -	\$ -	\$ -	\$ 23,000	\$ 22,307	(\$ 693)
State grants	25,000	24,913	( 87)	19,000	5,729	( 13,271)	44,000	30,642	( 13,358)
Local grants	-	3,000	3,000	-	-	-	-	3,000	3,000
Charges for services	12,500	15,188	2,688	-	-	-	12,500	15,188	2,688
Other	<u>22,000</u>	<u>3,796</u>	<u>( 18,204)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,000</u>	<u>3,796</u>	<u>( 18,204)</u>
	<u>\$ 82,500</u>	<u>\$ 69,204</u>	<u>(\$ 13,296)</u>	<u>\$ 19,000</u>	<u>\$ 5,729</u>	<u>(\$ 13,271)</u>	<u>\$ 101,500</u>	<u>\$ 74,933</u>	<u>(\$ 26,567)</u>
Expenditures Paid:									
Legislative	\$ 3,000	\$ 3,388	(\$ 388)	\$ -	\$ -	\$ -	\$ 3,000	\$ 3,388	(\$ 388)
General government	76,320	58,615	17,705	-	-	-	76,320	58,615	17,705
Public works	3,180	2,820	360	23,000	24,445	( 1,445)	26,180	27,265	( 1,085)
Recreation and culture	-	4,880	( 4,880)	-	-	-	-	4,880	( 4,880)
Capital outlay	-	47,974	( 47,974)	-	-	-	-	47,974	( 47,974)
Debt service	<u>-</u>	<u>1,786</u>	<u>( 1,786)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,786</u>	<u>( 1,786)</u>
	<u>\$ 82,500</u>	<u>\$ 119,463</u>	<u>(\$ 36,963)</u>	<u>\$ 23,000</u>	<u>\$ 24,445</u>	<u>(\$ 1,445)</u>	<u>\$ 105,500</u>	<u>\$ 143,908</u>	<u>(\$ 38,408)</u>
Excess of Revenues Received Over (Under) Expenditures Paid	\$ -	(\$ 50,259)	(\$ 50,259)	(\$ 4,000)	(\$ 18,716)	(\$ 14,716)	(\$ 4,000)	(\$ 68,975)	(\$ 64,975)
Other Financing Sources Received (Paid)									
Operating transfers in	-	10,000	10,000	5,000	5,923	923	5,000	15,923	10,923
Operating transfers out	-	-	-	-	( 5,923)	( 5,923)	-	( 5,923)	( 5,923)
Proceeds from notes payable	<u>-</u>	<u>37,923</u>	<u>37,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,923</u>	<u>37,923</u>
Excess of Revenues Received and Other Sources Received Over (Under) Expenditures Paid	\$ -	(\$ 2,336)	(\$ 2,336)	\$ 1,000	(\$ 18,716)	(\$ 19,716)	\$ 1,000	(\$ 21,052)	\$ 22,052
Fund Balance, March 1	<u>8,421</u>	<u>8,421</u>	<u>-</u>	<u>45,793</u>	<u>45,793</u>	<u>-</u>	<u>54,214</u>	<u>54,214</u>	<u>-</u>
Fund Balance, February 28	<u>\$ 8,421</u>	<u>\$ 6,085</u>	<u>(\$ 2,336)</u>	<u>\$ 46,793</u>	<u>\$ 27,077</u>	<u>(\$ 19,716)</u>	<u>\$ 55,214</u>	<u>\$ 33,162</u>	<u>(\$ 22,052)</u>

See notes to financial statements.

**VILLAGE OF GARDEN**

**COMBINED STATEMENT OF REVENUES RECEIVED,  
EXPENSES PAID AND CHANGES IN RETAINED EARNINGS -  
ALL PROPRIETARY FUND TYPES**

For the year ended February 28, 2003

	<u>Enterprise Funds</u>	<u>Total</u>
Operating Revenues Received:		
Customer charges	\$ 37,342	\$ 37,342
Operating Expenses Paid:		
Wages	\$ 3,066	\$ 3,066
Office supplies	1,293	1,293
Operating supplies	685	685
Insurance	399	399
Electricity	4,998	4,998
Telephone	361	361
Repairs	2,042	2,042
Workshops	860	860
Travel	204	204
Miscellaneous	1,031	1,031
Depreciation	38,713	38,713
Other Expenses:		
Embezzlement loss	<u>32,858</u>	<u>32,858</u>
	\$ <u>86,510</u>	\$ <u>86,510</u>
Excess Operating Expenses	(\$ 49,168)	(\$ 49,168)
Nonoperating Revenues Received (Expenses Paid):		
Interest income	\$ 312	\$ 312
Interest expense	( <u>9,282</u> )	( <u>9,282</u> )
Excess of Expenses Paid Over Revenues Received Before Operating Transfers	(\$ 58,138)	(\$ 58,138)
Other Financing Sources Received (Paid):		
Operating transfers out	( <u>10,000</u> )	( <u>10,000</u> )
Excess of Revenues Received and Other Sources Received Over (Under) Expenditures Paid	(\$ 68,138)	(\$ 68,138)
Retained Earnings (deficit), March 1	( <u>299,426</u> )	( <u>299,426</u> )
Retained Earnings (deficit), February 28	(\$ <u>367,564</u> )	(\$ <u>367,465</u> )

See notes to financial statements.

**VILLAGE OF GARDEN****COMBINED STATEMENT OF CASH FLOWS -  
ALL PROPRIETARY FUND TYPES**

For the year ended February 28, 2003

**INCREASE (DECREASE) IN CASH**

	<u>Enterprise Funds</u>	<u>Total</u>
Cash Flows from Operating Activities:		
Excess operating expenses	(\$ 49,168)	(\$ 49,168)
Adjustments to reconcile excess operating expenses to net cash flows from operating activities:		
Depreciation	38,713	38,713
Increase in due from other funds	<u>1,503</u>	<u>1,503</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	(\$ <u>8,952</u> )	(\$ <u>8,952</u> )
Cash Flows from Noncapital Financing Activities:		
Operating transfer to General Fund	(\$ <u>10,000</u> )	(\$ <u>10,000</u> )
Cash Flows from Capital and Related Financing Activities:		
Principal repayments	( 2,000)	( 2,000)
Interest paid	( <u>9,282</u> )	( <u>9,282</u> )
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(\$ <u>11,282</u> )	(\$ <u>11,282</u> )
Cash Flows from Investing Activities:		
Interest received	\$ <u>312</u>	\$ <u>312</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ <u>312</u>	\$ <u>312</u>
NET DECREASE IN CASH	(\$ 29,922)	(\$ 29,922)
Cash, beginning of year	<u>55,485</u>	<u>55,485</u>
Cash, end of year	\$ <u><u>25,563</u></u>	\$ <u><u>25,563</u></u>

See notes to financial statements.

## VILLAGE OF GARDEN

### NOTES TO FINANCIAL STATEMENTS

February 28, 2003

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Village applies criteria set forth in generally accepted accounting principles in evaluating how to define the Village for financial reporting purposes. These principles require that the financial statements present the Village and its component units, if any. Component units are separate entities for which the Village government is considered financially accountable. The Village has determined that no component units currently exist for the Village.

Basis of Presentation - The major focus of a governmental accounting and reporting system is to show adherence to applicable legal provisions and to determine fairly and with full disclosure the financial position and results of financial operations of each accounting entity within a governmental unit.

In accordance with the above criteria, the accounts of the Village of Garden are organized on the basis of individual funds or account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate, self-balancing set of accounts that comprise its assets, liabilities, equity, revenues and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund categories and three generic fund types as follows:

#### Governmental Funds:

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources and transactions not properly or legally accounted for in another of the Village's funds.

Special Revenue Funds - The Village's special revenue funds are used to account for proceeds of specific revenue sources or to finance specified activities as required by law or administrative regulations. The following special revenue funds are maintained by the Village:

Major Street Fund  
Local Street Fund

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2003

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues received, expenses paid and/or net receipts is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following enterprise fund is maintained by the Village:

Water System Fund

Basis of Accounting - The cash basis of accounting is used by all of the Village's funds. Under the cash basis of accounting, revenues are recognized as received and expenditures or expenses are recognized as paid. Accordingly, the financial statements do not reflect assets arising from revenues earned but not yet collected, or liabilities from expenditures or expenses incurred but not yet paid. Fixed assets acquired by enterprise fund types are recorded as fund assets and depreciated over their estimated useful lives.

Budgets - The Village prepares annual budgets under the cash basis of accounting.

Cash - For purposes of the Statement of Cash Flows, cash includes restricted cash in the Water System Fund.

Restricted Assets - Certain bond ordinances require that the Water System fund establish and maintain prescribed cash reserves that can be used only to service outstanding debt and for maintenance, renewal and replacement.

Memorandum Totals - The total column of the Combined Statements is captioned "Memorandum Only" to indicate that is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with the basis of accounting described in Note 1. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

## VILLAGE OF GARDEN

### NOTES TO FINANCIAL STATEMENTS

February 28, 2003

#### **NOTE 2 - FIXED ASSETS**

The Village does not maintain a detailed record of the general fixed assets used in governmental fund type operations. Accordingly, the General Fixed Asset Group of Accounts is not included in the Combined Statement of Assets and Liabilities Arising from Cash Transactions as generally accepted by the Village's basis of accounting described in Note 1.

Property, plant and equipment acquired by enterprise fund types subsequent to February 28, 1979 are recorded at cost and depreciated over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

Equipment	5 - 10 years
Water system	40 years

#### **NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Compliance with Bond Ordinances - Ordinance 7 provides for reserves to be accumulated out of the Water System revenues. At February 28, 2003 the Village was not in compliance with all reserve requirements. The required and actual reserve balances as of February 28, 2003 are as follows:

	<u>Required Balance</u>	<u>Actual Balance</u>
Operation and Maintenance Fund:		
Reasonable and necessary expenses for the ensuing quarter	\$ 3,735	\$ 3,735
Bond and Interest Redemption Fund	3,019	7,766
Bond Reserve Account	12,000	3,856
General Purpose Account	65,142	6,402

Excess of Expenditures Over Appropriations - Public Act 2 of 1968, as amended by Public Act 621 of 1978, prohibits local governments in Michigan from incurring expenditures in excess of appropriations adopted by the governing body. The following amounts of excess expenditures were incurred by the Village during the current year:

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2003

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Excess</u>
General Fund:			
Village Council	\$ 3,000	\$ 3,388	\$ 388
Equipment maintenance	6,600	7,573	973
Elections	-	846	846
Village's share of FICA	3,000	3,029	29
Capital outlay	-	47,974	47,974
Embezzlement loss	-	300	300
Recreation and culture	-	4,880	4,880
Major Street Fund:			
Wages	4,000	4,004	4
Employee insurance	400	606	206
Repairs and maintenance	-	1,839	1,839
Equipment rental	4,000	4,359	359
Local Street Fund:			
Repairs	-	885	885
Capital outlay	4,000	7,700	3,700

Deficit Fund Equity - At February 28, 2003 the Water System Fund had a deficit fund equity of \$367,564.

**NOTE 4 - CASH DEPOSITS**

Cash deposits are recorded at cost. All cash deposits are held in federally insured banks located in the State of Michigan. During the past year, cash balances deposited have exceeded the maximum federally insured deposit levels. At February 28, 2003 the carrying amount of the Village's cash deposits was \$68,724 and the bank balance was \$67,779 which was fully covered by federal deposit insurance.

## VILLAGE OF GARDEN

### NOTES TO FINANCIAL STATEMENTS

February 28, 2003

#### **NOTE 5 - PROPERTY TAXES**

The Village's annual property tax on real and personal property within the Village is levied on July 1, and is based on taxable valuation of property as of the preceding December 31.

Taxes are generally payable by September 15. Unpaid real property taxes as of February 28 are turned over to the County Treasurer for collection. The County maintains a tax revolving fund which permits the County to pay 100% of the delinquent real taxes within approximately 90 days of their delivery to the County.

The Village recognizes property taxes as revenue when received. Accordingly, no receivables for delinquent property taxes are reflected in the financial statements.

#### **NOTE 6 - ENTERPRISE FUND FIXED ASSETS**

The following summarizes the changes in enterprise fund fixed assets for the year ended February 28, 2003:

	<u>Balance, March 1</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance, Feb. 28</u>
Land	\$ 7,955	\$ -	\$ -	\$ 7,955
Water system	1,529,787	-	-	1,529,787
Equipment	<u>23,116</u>	<u>-</u>	<u>-</u>	<u>23,116</u>
	\$ <u>1,560,858</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,560,858</u>
Accumulated depreciation	\$ <u>364,605</u>	(\$ <u>38,713</u> )	\$ <u>-</u>	\$ <u>403,318</u>
Net undepreciated cost	\$ <u>1,196,253</u>	(\$ <u>38,713</u> )	\$ <u>-</u>	\$ <u>1,157,540</u>

The Village's financial statements do not include any property or equipment, or the related contributions in aid of construction, for property acquisitions prior to March 1, 1979 since proper records of such acquisitions were not maintained by the Village.



# VILLAGE OF GARDEN

## NOTES TO FINANCIAL STATEMENTS

February 28, 2003

### NOTE 7 - LONG-TERM DEBT

The following is a summary of the Village's long-term debt transactions for the year ended February 28, 2003:

	Enterprise Fund	General Fund	
	Water System Revenue Bonds	Note Payable	Note Payable
Debt outstanding, March 1, 2002	\$ 186,500	\$ -	\$ -
Note proceeds	-	28,348	9,575
Repayments	( 2,000)	( 332)	( 1,080)
Debt outstanding, February 28, 2003	\$ <u>184,500</u>	\$ <u>28,016</u>	\$ <u>8,495</u>

Water System debt outstanding as of February 28, 2003, consisted of the Water System revenue bonds in the amount of \$184,500 which bear interest at 5%. Principal is due in annual installments ranging from \$3,000 to \$12,000 through the year 2031. Interest is due in semi-annual installments on March 1 and September 1. The Water System revenue bonds are secured by a statutory first lien on the net revenues of the Water System. The following summarizes the debt service requirements for the next five years and thereafter:

Year ended February 28,	Water System	General Fund
2004	\$ 12,225	\$ 8,351
2005	12,075	8,351
2006	11,925	8,351
2007	11,775	7,029
2008	11,625	5,736
Thereafter	<u>294,750</u>	<u>2,425</u>
TOTAL	\$ <u>354,375</u>	\$ <u>40,243</u>

The above schedule includes \$173,607 of interest payments.

**VILLAGE OF GARDEN**

**NOTES TO FINANCIAL STATEMENTS**

February 28, 2003

**NOTE 8 - FUND EQUITY**

Specific reservations of fund balance amounts and retained earnings are summarized below:

General Fund - The original recreation donations are to be used for recreation purposes only.

Water System Fund - Reserves represent those portions of retained earnings that are legally segregated in conjunction with the issuance of revenue bonds for debt service and maintenance, renewal and replacement.

**NOTE 9 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village carries commercial insurance for these risks of loss, including employee health insurance.

**NOTE 10 - SUBSEQUENT EVENT**

The Water System Fund and General Fund reflect embezzlement losses totaling \$33,158, which occurred during the year ended February 28, 2003.

The Village expects to recover a significant portion of these embezzlement losses, as well as a portion of the embezzlement losses occurring in the subsequent year.

**COMBINING FINANCIAL STATEMENTS**

## VILLAGE OF GARDEN

COMBINING STATEMENT OF ASSETS AND LIABILITIES ARISING  
FROM CASH TRANSACTIONS - ALL SPECIAL REVENUE FUNDS

February 28, 2003

	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ <u>27,409</u>	\$ <u>1,177</u>	\$ <u>28,586</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Due to other funds	\$ 966	\$ 543	\$ 1,509
Fund Equity:			
Fund balance	<u>26,443</u>	<u>634</u>	<u>27,077</u>
	\$ <u>27,409</u>	\$ <u>1,177</u>	\$ <u>28,586</u>

See notes to financial statements.

**VILLAGE OF GARDEN****COMBINING STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID  
AND CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS**

For the year ended February 28, 2003

	Major Street Fund	Local Street Fund	Total
Revenues Received:			
State grants	\$ <u>3,726</u>	\$ <u>2,003</u>	\$ <u>5,729</u>
	\$ <u>3,726</u>	\$ <u>2,003</u>	\$ <u>5,729</u>
Expenditures Paid:			
Public works	\$ <u>10,808</u>	\$ <u>13,637</u>	\$ <u>24,445</u>
	\$ <u>10,808</u>	\$ <u>13,637</u>	\$ <u>24,445</u>
Excess of Revenues Received Over (Under) Expenditures Paid	(\$ 7,082)	(\$ 11,634)	(\$ 18,716)
Other Financing Sourced Received (Paid):			
Operating transfers in	-	5,923	5,923
Operating transfers out	( <u>5,923</u> )	-	( <u>5,923</u> )
Excess of Revenues Received and Other Sources Received Over (Under) Expenditures Paid	(\$ 13,005)	(\$ 5,711)	(\$ 18,716)
Fund Balance, March 1	<u>39,448</u>	<u>6,345</u>	<u>45,793</u>
Fund Balance, February 28	\$ <u><u>26,443</u></u>	\$ <u><u>634</u></u>	\$ <u><u>27,077</u></u>

See notes to financial statements.

**INDIVIDUAL FUND FINANCIAL STATEMENTS**

**VILLAGE OF GARDEN****STATEMENT OF BUDGETED AND ACTUAL REVENUES RECEIVED**  
**GENERAL FUND**

For the year ended February 28, 2003

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Taxes:			
Current taxes	\$ 17,000	\$ 16,674	(\$ 326)
Delinquent taxes	6,000	5,633	( 367)
State Grants:			
Revenue sharing	25,000	24,913	( 87)
Local Grants:			
Historical society grant	-	3,000	3,000
Charges for Services:			
Garbage collection	9,000	8,305	( 695)
Equipment rentals	3,500	6,883	3,383
Other:			
Recreation	-	2,824	2,824
Miscellaneous	7,000	972	( 6,028)
Interfund reimbursements	<u>15,000</u>	<u>-</u>	( <u>15,000</u> )
	\$ <u>82,500</u>	\$ <u>69,204</u>	(\$ <u>13,296</u> )

See notes to financial statements.

**VILLAGE OF GARDEN****STATEMENTS OF BUDGETED AND ACTUAL EXPENDITURES PAID**  
**GENERAL FUND**

For the year ended February 28, 2003

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Legislative:			
Village Council	\$ 3,000	\$ 3,388	(\$ 388)
General Government:			
Village President	250	250	-
Village Clerk	3,340	2,700	640
Village Treasurer	3,450	2,700	750
Village hall	42,587	36,134	6,453
Equipment maintenance	6,600	7,573	( 973)
Insurance	14,000	4,843	9,157
Village's share of FICA	3,000	3,029	( 29)
Elections	-	846	( 846)
Other	3,093	240	2,853
Embezzlement loss	-	300	( 300)
Capital outlay	-	47,974	( 47,974)
Recreation and culture	-	4,880	( 4,880)
Public Works:			
Street lighting	3,180	2,820	360
Debt Service:			
Principal and interest	-	1,786	( 1,786)
	\$ <u>82,500</u>	\$ <u>119,463</u>	(\$ <u>36,963</u> )

See notes to financial statements.



**VILLAGE OF GARDEN****STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
MAJOR STREET FUND**

For the year ended February 28, 2003

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Revenues Received:			
State grants	\$ <u>13,000</u>	\$ <u>3,726</u>	(\$ <u>9,274</u> )
	\$ <u>13,000</u>	\$ <u>3,726</u>	(\$ <u>9,274</u> )
Expenditures Paid:			
Wages	\$ 4,000	\$ 4,004	(\$ 4)
Employee insurance	400	606	( 206)
Contracted services	100	-	100
Insurance	500	-	500
Repairs and maintenance	-	1,839	( 1,839)
Equipment rental	4,000	4,359	( 359)
Miscellaneous	<u>3,000</u>	<u>-</u>	<u>3,000</u>
	\$ <u>12,000</u>	\$ <u>10,808</u>	\$ <u>1,192</u>
Excess of Revenues Received Over (Under) Expenditures Paid	\$ 1,000	(\$ 7,082)	(\$ 8,082)
Other Financing Sourced Received (Paid):			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	( <u>5,923</u> )	( <u>5,923</u> )
Excess of Revenues Received and Other Sources Received Over (Under) Expenditures Paid	\$ 1,000	(\$ 13,005)	(\$ 14,005)
Fund Balance, March 1	<u>39,448</u>	<u>39,448</u>	<u>-</u>
Fund Balance, February 28	\$ <u>40,448</u>	\$ <u>26,443</u>	(\$ <u>14,005</u> )

See notes to financial statements.

**VILLAGE OF GARDEN**

**STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**

For the year ended February 28, 2003

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Revenues Received:			
State grants	\$ <u>6,000</u>	\$ <u>2,003</u>	(\$ <u>3,997</u> )
	\$ <u>6,000</u>	\$ <u>2,003</u>	(\$ <u>3,997</u> )
Expenditures Paid:			
Wages	\$ 3,000	\$ 2,225	\$ 775
Employee insurance	400	303	97
Contracted services	100	-	100
Repairs	-	885	( 885)
Insurance	500	-	500
Equipment rental	3,000	2,524	476
Capital outlay	<u>4,000</u>	<u>7,700</u>	( <u>3,700</u> )
	\$ <u>11,000</u>	\$ <u>13,637</u>	(\$ <u>2,637</u> )
Excess of Revenues Received Over (Under) Expenditures Paid	(\$ 5,000)	(\$ 11,634)	(\$ 6,634)
Other Financing Sourced Received (Paid):			
Operating transfers in	5,000	5,923	923
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Received and Other Sources Received Over (Under) Expenditures Paid	\$ -	(\$ 5,711)	(\$ 5,711)
Fund Balance, March 1	<u>6,345</u>	<u>6,345</u>	<u>-</u>
Fund Balance, February 28	\$ <u><u>6,345</u></u>	\$ <u><u>634</u></u>	(\$ <u><u>5,711</u></u> )

See notes to financial statements.

**SUPPORTING SCHEDULES**

**VILLAGE OF GARDEN****SCHEDULE OF GENERAL FUND EXPENDITURES PAID -  
BY ACTIVITY AND ACCOUNT**

For the year ended February 28, 2003

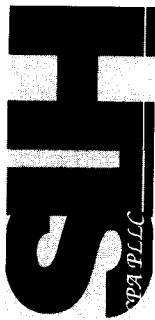
<u>Village Council</u>	
Board fees	\$ 1,840
Dues and administrative expenses	<u>1,548</u>
	\$ <u>3,388</u>
 <u>Village President</u>	
Salary	\$ <u>250</u>
 <u>Village Clerk</u>	
Salary	\$ <u>2,700</u>
 <u>Village Treasurer</u>	
Salary	\$ <u>2,700</u>
 <u>Village Hall</u>	
Wages	\$ 27,976
Travel	90
Supplies	1,884
Electricity	935
Telephone	578
Heat	4,285
Water	246
Repairs	135
Postage	<u>5</u>
	\$ <u>36,134</u>
 <u>Equipment Maintenance</u>	
Gas and oil supplies	\$ 2,911
Repairs and maintenance	<u>4,662</u>
	\$ <u>7,573</u>

**VILLAGE OF GARDEN**

**SCHEDULE OF GENERAL FUND EXPENDITURES PAID -  
BY ACTIVITY AND ACCOUNT**

For the year ended February 28, 2003

<u>Street Lightings</u>	
Electricity	\$ <u>2,820</u>
<u>Election</u>	
Wages	\$ 240
Supplies	506
Printing and publishing	70
Mileage	<u>30</u>
	\$ <u>846</u>
<u>Insurance</u>	\$ <u>4,843</u>
<u>Employer's FICA</u>	\$ <u>3,029</u>
<u>Miscellaneous</u>	\$ <u>240</u>
<u>Embezzlement loss</u>	\$ <u>300</u>
<u>Cultural</u>	
Historical Society	\$ <u>2,736</u>
<u>Recreation</u>	
Supplies	\$ <u>2,144</u>
<u>Capital Outlay</u>	
Truck	\$ 38,399
Tractor	<u>9,575</u>
	\$ <u>47,974</u>
<u>Debt Service</u>	
Principal	\$ 1,413
Interest	<u>373</u>
	\$ <u>1,786</u>
TOTAL EXPENDITURES	\$ <u>119,463</u>



*Schneider, Larche,  
Haapala & Co., PLLC*

**CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS**

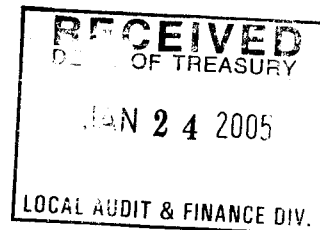
David P. Pechawer, C.P.A., P.C.

Denise M. Boyle, C.P.A., P.C.

Bruce D. Dewar, C.P.A.

Karen L. Meiers, C.P.A., P.C.

October 10, 2003



To the Village Council  
Village of Garden  
Garden, Michigan

In planning and performing our audit of the financial statements of the Village of Garden, Michigan for the year ended February 28, 2003, we considered the Village's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our recommendations and comments are presented to assist the Village in adhering to State accounting and budgeting requirements and to strengthen internal controls. The memorandum that accompanies this letter summarizes our recommendations and comments regarding those matters. A separate report dated October 10, 2003 contains our report on reportable conditions in the Village's internal control.

We will be pleased to discuss these recommendations and comments in further detail at your convenience. We appreciate the assistance provided to us by the Village officials and look forward to working with them in the future.

*Schneider, Larche, Haapala & Company, PLLC*

Certified Public Accountants



## **SEGREGATION OF DUTIES AND ACCOUNTING PROCEDURES**

Due to the limited number of Village officials, the Village is limited as to the extent to which it can segregate the duties of officials involved in the cash receipt, cash disbursement and recording of transaction functions. Officials perform duties in which they have access to both physical assets and the related accounting records. We recommend that the Village carefully review the Michigan Department of Treasury's Uniform Accounting Procedures Manual, which provides guidance and procedures for implementing as much segregation of duties as possible.

## **CONTROLS OVER ACCOUNTS RECEIVABLE**

The Village is not performing a monthly reconciliation of accounts receivable for water and garbage charges. Individual customer account records are maintained showing individual billing and cash payments, but a control summary is not maintained and reconciled to the total of the individual account records. Without preparation of a monthly summary and reconciliation, errors in posting of billings and cash receipts to individual account records would not be detected. We strongly recommend that the Village prepare a summary of the accounts receivable and reconcile the individual account records to this summary on a monthly basis.

## **VILLAGE BOARD REPORTING AND APPROVAL PROCESS SHOULD BE IMPROVED**

The Village Board should be provided with complete financial reports on a monthly basis. This should include a receipts and disbursements journal or check register report and balance sheets for all funds. If possible, detailed budget to actual information should also be provided to the Board periodically. In addition, the Board should be presented with all bills that should be reviewed and approved prior to payment. The Village should review its policy with regard to authorizing payments before formal approval is made by the Board to determine if it is effective and in accordance with the Board's understanding.

## **PAYMENT OF WAGES**

The Village periodically makes payment for services performed by individuals who are not full-time village employees or officials. These payments should be included as wages with appropriate taxes withheld and paid unless these payments are to individuals deemed to be "independent contractors" as determined by Internal Revenue Service regulations. The Village should review its procedures relating to these payments to insure it is complying with federal and state regulations.

## **BUDGET PROCEDURES**

During our review of the Village's budget procedures the following matters were noted:

- The Village has not incorporated its recreation account revenue and expenditures in its annual budget, nor has it budgeted for capital expenditures.
- The Village's budget for the year ended February 28, 2003 did not include the beginning and ending fund balance as required by the Uniform Budget Act of the State of Michigan.
- The Village budgets as revenue, interfund reimbursements for disbursements originally paid out of the General Fund, rather than budgeting the net expenditures as General Fund expenditures.
- The Village had several instances of excess expenditures over budget.

We recommend that the Village revise its procedures to insure that beginning and ending fund balance data is included in the annual budgets as required by the State. We recommend that the Village budget the reimbursements against the expenditures so that only the net expenditures are included in the General Fund budget and that all activities of the Village are budgeted for. Additionally, the Village needs to monitor its budgets periodically during the year to insure proper control of expenditures. Budget amendments should be adopted prior to expenditures.

## **ACCOUNTING FOR RECREATION ACTIVITIES**

The Village maintains a separate cash account that is used to account for recreation revenue and expenditures. These transactions are currently not being recorded in the General Fund general ledger nor are they being budgeted for. We suggest that this account be closed and the recreation activity be transacted through General Fund cash. General ledger accounts should be set up to record and account for this activity, and the annual budget should include this activity

## **CHANGES IN GOVERNMENTAL ACCOUNTING STANDARDS**

On June 30, 1999 the Governmental Accounting Standards Board (GASB) unanimously approved GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The adoption of this statement will result in a dramatic change in the way local governments are required to report and present financial information. The Local Audit and Finance Division of the Treasury Department of the State of Michigan is responsible for overseeing local unit compliance with P.A. 2 of 1968, and has determined that certain sections of the new standards would not need to be adopted by local governments, due to the cost of implementation exceeding the benefit of the additional information. However, qualification for certain federal grants and awards could be affected by compliance with the new standards. The Village would need to comply with the new standard for the fiscal year March 1, 2004 to February 28, 2005. We recommend that the Village examine the scope and applicability of this new standard since implementation will require planning and preparation.





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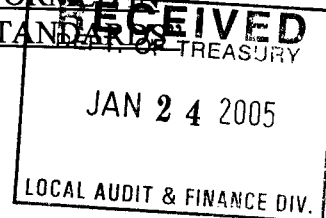
Bruce D. Dewar, C.P.A.

Karen L. Meiers, C.P.A., P.C.

October 10, 2003

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

To the Village Council  
Village of Garden, Michigan



We have audited the combined financial statements of the Village of Garden, Michigan, as of and for the year ended February 28, 2003, and have issued our report thereon dated October 10, 2003. In our report, our opinion was qualified because the Village did not include the General Fixed Asset Account Group in their combined financial statements and did not capitalize and depreciate enterprise fund property and equipment acquired prior to March 1, 1979 or record contributions in aid of construction attributable to such acquisitions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Garden's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under "Government Auditing Standards" and are described in the following paragraph. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village of Garden in a separate letter dated October 10, 2003.

Fraud and illegal acts were committed by a management level Village official who embezzled funds from the Village's cash accounts. In addition, fraudulent financial reports were submitted to Rural Development, a U.S. Department of Agriculture agency which oversees the Village's water system operations. In addition, payroll taxes were not deposited or deposited late, and payroll tax returns were not filed with the appropriate agencies.



Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Garden's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village of Garden's ability to record, process, summarize and report financial data consistent with the assertions of management in the combined financial statements and are described in the following paragraphs.

Due to the limited number of Village officials, the Village is limited as to the extent to which it can segregate the duties of officials involved in the cash receipt, cash disbursement and recording of cash transaction functions. Officials perform duties in which they have access to both physical assets and the related accounting records. During the year ended February 28, 2003 segregation of duties further deteriorated.

The Village is not performing a monthly reconciliation of accounts receivable for water and garbage charges. Individual customer account records are maintained showing individual billing and cash payments, but a control summary is not maintained and reconciled to the total of the individual account records. Without preparation of a monthly summary and reconciliation, errors in posting of billings and cash receipts to individual account records would not be detected.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above are considered to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Village of Garden in a separate letter dated October 10, 2003.

This report is intended for the information of the Village Council, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Schneider, Larøke, Haapala & Company, LLC*

Certified Public Accountants